

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7194

BILL NUMBER: HB 1627

DATE PREPARED: Mar 3, 1999

BILL AMENDED:

SUBJECT: Economic development tax credits.

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State

Summary of Legislation: This bill allows the Economic Development for a Growing Economy (EDGE) Board the option of providing tax credits for job retention for the Colgate-Palmolive Company operation in Clarksville.

Effective Date: July 1, 1999.

Explanation of State Expenditures: The EDGE program is administered by the Indiana Department of Commerce (IDOC). Any additional costs related to this bill could be absorbed within the Department's existing budget.

Explanation of State Revenues: (Revised) EDGE credits were designed to offer a revenue neutral investment incentive to new or expanding businesses. These credits may be taken against state tax liability, and the amount of the credit allowed to a taxpayer is equal to a percentage (established by the EDGE Board) of the incremental income taxes withheld for employees filling newly created positions. Since this income tax revenue would not have been collected without the job creation, there is no net loss to the state.

Under current law, EDGE credits are only available when new jobs are created. This bill would create an exception to this solely for the Colgate-Palmolive facility already located in Clarksville (Clark County). If the EDGE Board feels that a tax credit would assist in retaining jobs that the firm would otherwise relocate outside of Indiana, then credits could be awarded. It must also be shown, however, that disparities exist between the costs of production in Indiana and the alternate locations being considered.

If credits are granted for retained jobs, no new individual income tax revenue would be generated to offset the reduction in taxes paid by Colgate-Palmolive. However, without the EDGE incentive, it is possible that the entire operation could be moved outside of Indiana, resulting in a loss of both corporate and individual income tax revenue to the state (and property tax revenue to local governments). Under this proposal, the

EDGE Board would identify the number of positions retained and the corresponding income tax withholdings in determining the amount of the credit. Colgate-Palmolive currently employs more than 470 people in the town of Clarksville. According to a 1996 US Census estimate, the population of Clarksville is 19,749.

According to a representative of Colgate-Palmolive, the total annual payroll for the Clarksville operation is \$37 M. Under this bill, the EDGE Board could approve a credit amount up to 100% of income taxes withheld for all positions at the facility. The IDOC uses a 3.1% effective state income tax rate to estimate the amount of EDGE credits that would be granted. Based on the full \$37 M payroll, Colgate-Palmolive could receive approximately \$1,147,000 (\$37,000,000 multiplied by 3.1%) each taxable year for no more than ten years (this year limitation would also be decided by the EDGE Board).

EDGE credits may be taken against a taxpayer's gross income tax, adjusted gross income tax, supplemental net income tax, bank tax, savings and loan association tax, insurance premium tax, or financial institution tax liability. The credit may not exceed ten years. In 1997, IDOC approved \$14.8 M in new EDGE credits (to be taken over several years) for five companies with the expectation of 1,393 new jobs being created. The total credits that may be taken in FY 1999 alone are projected by IDOC at \$6,860,423.

Individual and corporate income taxes are distributed to the General Fund and the Property Tax Replacement Fund. This bill could impact FY 2000 tax collections.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: IDOC, EDGE Board.

Local Agencies Affected:

Information Sources: Leslie Richardson, Director, Division of Research, IDOC, (317) 232-8962; IDOC 1997 Annual Edge Report; US Census; Colgate-Palmolive.